

13. REVIEW OF DIRECT SPENDING AND RECEIPTS

Introduction

The Budget Enforcement Act of 1990 established caps to control discretionary spending and a pay-as-you-go requirement to control legislative changes to mandatory programs and revenues. It did not, however, control the growth of mandatory spending resulting from economic and technical factors. In August 1993, the President established procedures to control this growth in mandatory spending by issuing Executive Order 12857. The Order set targets on the level of mandatory spending, excluding deposit insurance and net interest, for 1994 through 1997. The Order also specified actions that must be taken if the targets are exceeded. These actions may include specific revenue or direct spending changes or reductions in the discretionary caps. The savings to remove the excess in the prior, current, and/or budget years can be achieved over a six-year period covering the current year through four years beyond the budget year. The President also has the option to recommend breaching the targets because of economic conditions or other specific reasons. This chapter fulfills the Order's requirements for an annual review of direct spending and receipts.

As required by the Order, OMB issued an initial report to the Congress in September 1993 setting the mandatory targets for 1994 through 1997. The initial targets were based on the economic and technical assumptions used in preparing the congressional budget resolution for 1994. They were consistent with the policies in the resolution as adjusted by final congressional action on the Omnibus Budget Reconciliation Act of 1993 (OBRA93). The Order requires annual adjustment of these targets. In the 1995 and 1996 Budgets, the targets were revised. This review provides the next annual revision of the targets.

Adjustments to Targets

The targets must be adjusted each year for increases in the estimated numbers of beneficiaries of mandatory programs, and for changes in receipts in legislation enacted during the year. Table 13-1 shows the targets as revised for these circumstances. As the table shows, the targets have increased by \$20.6 billion over the three year period 1995 through 1997 since February 1995.

Table 13-1. SUMMARY OF CHANGES TO MANDATORY TARGETS AND CURRENT LAW OUTLAYS

(In billions of dollars)

	1995	1996	1997	1995-97
Changes to mandatory targets				
Mandatory targets as of February 1995	793.2	833.3	900.8	.....
Adjustments for:				
Increase in beneficiaries	0.2	0.2	1.1	1.5
Changes in receipts	-0.1	-0.1	0.2	-*
Reclassification of Universal Service Fund	4.3	4.3	4.3	12.9
Changes due to category shifts	1.8	2.3	2.1	6.3
Total adjustments	6.2	6.7	7.7	20.6
Mandatory targets as of March 1996	799.5	840.0	908.5	.....
Changes to outlays under current laws				
Outlays under current laws as of February 1995	763.2	813.8	873.9	.....
Adjustments for:				
Cost of living adjustment	-1.5	-3.9	-5.5	-10.9
Increases in beneficiaries	0.2	0.2	1.1	1.5
Decreases in beneficiaries	-11.0	-11.9	-15.3	-38.1
Reclassification of Universal Service Fund	4.3	4.3	4.3	12.9
Changes due to category shifts	1.8	2.3	2.1	6.3
Enacted paygo legislation	*	1.1	1.9	3.1
Other adjustments	2.1	2.7	5.1	9.9
Total adjustments	-4.0	-5.2	-6.2	-15.4
Outlays under current laws as of March 1996	759.2	808.6	867.7	.....
Amount over (+) or under (-) the current target	-40.3	-31.4	-40.8	-112.5
Memorandum:				
Initial mandatory targets (Executive Order 12857)	784.7	823.7	887.7	.....

*\$50 million or less

Table 13-1 also shows the major changes in current law estimates since 1996 Budget. Over the three years, current law estimates have declined by \$15.4 billion. Most of this difference is the result of downward reestimates for Commodity Credit Corporation, Social Security, Earned Income Tax Credit, Supplementary Security, Income, and Food Stamps programs.

The Order requires an adjustment to the targets to reflect increases in estimated beneficiaries. Table 13-2 shows the current estimates of beneficiaries of major benefit payment programs as well as the level implicit in the 1996 Budget targets. In six programs the estimates of beneficiaries have increased. Therefore, the targets have been increased by applying the percentage change in the number of beneficiaries to the target level of the program. The largest adjustments are for Unemployment insurance, Military retirement, and Veterans' pensions. In total, the targets have been increased by \$1.5 billion for the three-year period because of increases in beneficiary estimates.

An adjustment to the mandatory targets is also required for any enacted changes in receipts. This allows for tradeoffs between receipt increases and outlay reductions. In the last year, legislation has not significantly increased receipts over the three-year period.

The mandatory targets are adjusted for reclassifications of spending. As a result of review, while scoring the Telecommunications Act of 1996, the universal service fund of the Federal Communications Commission has been reclassified as budgetary to more accurately reflect its governmental nature. Inclusion of the fund's pre-Telecommunications Act outlays in the budget increases mandatory outlays and the targets by \$4.3 billion each year. In addition, certain Federal-aid highway projects that are exempt from limitations imposed by the Appropriations Committee have been reclassified from discretionary to mandatory. This change increases the mandatory targets by \$1.8 billion in 1995, \$2.3 billion in 1996, \$2.1 billion in 1997. The targets have also been adjusted for several minor categorical shifts.

Table 13-2. BENEFICIARIES ESTIMATES FOR MAJOR BENEFIT PROGRAMS

(Annual average, in thousands)

	1995	1996	1997	1998	1999	2000	2001	2002
Family education loans:								
Level implicit in 1996 Budget target	5,394	3,898	3,695	NA	NA	NA	NA	NA
OMB March 1996 estimate	4,309	3,392	2,918	2,709	2,395	2,453	2,518	2,588
Direct loans:								
Level implicit in 1996 Budget target	1,694	3,451	3,940	NA	NA	NA	NA	NA
OMB March 1996 estimate	1,031	2,151	2,773	3,146	3,594	3,678	3,771	3,872
AFDC work programs:								
Level implicit in 1996 Budget target	708	721	727	NA	NA	NA	NA	NA
OMB March 1996 estimate ¹	641	631	627	624	624	624	NA	NA
Foster care and adoption assistance:								
Level implicit in 1996 Budget target	365	392	410	NA	NA	NA	NA	NA
OMB March 1996 estimate	368	387	416	436	458	482	503	528
Medicaid:								
Level implicit in 1996 Budget target	36,500	37,715	39,146	NA	NA	NA	NA	NA
OMB March 1996 estimate	36,168	37,516	38,674	39,763	40,825	41,808	42,719	43,548
Medicare:								
Hospital insurance:								
Level implicit in 1996 Budget target	37,009	37,625	38,206	NA	NA	NA	NA	NA
OMB March 1996 estimate	36,934	37,528	38,073	38,578	39,054	39,548	40,046	40,554
Supplementary medical insurance:								
Level implicit in 1996 Budget target	35,651	36,244	36,760	NA	NA	NA	NA	NA
OMB March 1996 estimate	35,498	36,006	36,490	36,923	37,324	37,740	38,163	38,576
Railroad retirement:								
Level implicit in 1996 Budget target	805	783	761	NA	NA	NA	NA	NA
OMB March 1996 estimate	799	778	755	731	708	686	664	643
Federal civil service retirement:								
Level implicit in 1996 Budget target	2,297	2,327	2,365	NA	NA	NA	NA	NA
OMB March 1996 estimate	2,287	2,324	2,349	2,371	2,391	2,412	2,433	2,459
Military retirement:								
Level implicit in 1996 Budget target	1,805	1,826	1,847	NA	NA	NA	NA	NA
OMB March 1996 estimate	1,814	1,833	1,854	1,874	1,893	1,908	1,924	1,939
Unemployment insurance:								
Level implicit in 1996 Budget target	9,000	9,000	9,000	NA	NA	NA	NA	NA
OMB March 1996 estimate	8,100	8,950	9,300	9,250	9,190	9,160	9,170	9,180
Food stamps: ²								
Level implicit in 1996 Budget target	27,314	27,316	27,307	NA	NA	NA	NA	NA
OMB March 1996 estimate	26,622	26,139	25,947	26,101	26,250	26,383	26,516	26,650
Child nutrition:								
Level implicit in 1996 Budget target	37,557	38,544	39,499	NA	NA	NA	NA	NA
OMB March 1996 estimate	36,060	37,279	38,476	39,494	39,319	41,281	42,050	42,826
Family support: maintenance assistance (AFDC): ³								
Level implicit in 1996 Budget target	5,250	5,330	5,410	NA	NA	NA	NA	NA
OMB March 1996 estimate	4,866	4,618	4,684	4,750	4,817	4,876	4,935	4,994

Table 13-2. BENEFICIARIES ESTIMATES FOR MAJOR BENEFIT PROGRAMS—Continued

(Annual average, in thousands)

	1995	1996	1997	1998	1999	2000	2001	2002
Family support: emergency assistance:								
Level implicit in 1996 Budget target	NA	NA	NA	NA	NA	NA	NA	NA
OMB March 1996 estimate	80	84	87	91	95	98	102	106
Supplemental security income:								
Level implicit in 1996 Budget target	6,333	6,822	7,281	NA	NA	NA	NA	NA
OMB March 1996 estimate:								
Aged	1,327	1,315	1,295	1,280	1,265	1,255	1,240	1,235
Blind/Disabled	4,743	4,995	5,210	5,405	5,585	5,750	5,910	6,050
Total, OMB March 1996 estimate	6,070	6,310	6,505	6,685	6,850	7,005	7,150	7,285
Earned income tax credit:								
Level implicit in 1996 Budget target	17,000	17,000	17,005	NA	NA	NA	NA	NA
OMB March 1996 estimate	15,271	15,044	15,219	15,431	15,698	15,885	16,127	16,367
Social Security (OASDI):								
Old age and survivors insurance:								
Level implicit in 1996 Budget target	37,459	37,821	38,166	NA	NA	NA	NA	NA
OMB March 1996 estimate	37,309	37,653	38,005	38,335	38,650	38,975	39,308	39,655
Disability insurance:								
Level implicit in 1996 Budget target	5,685	6,050	6,413	NA	NA	NA	NA	NA
OMB March 1996 estimate	5,656	5,955	6,277	6,588	6,892	7,178	7,456	7,733
Veterans' compensation:								
Level implicit in 1996 Budget target	2,532	2,550	2,557	NA	NA	NA	NA	NA
OMB March 1996 estimate	2,533	2,546	2,551	2,551	2,548	2,543	2,538	2,529
Veterans' pensions:								
Level implicit in 1996 Budget target	788	744	706	NA	NA	NA	NA	NA
OMB March 1996 estimate	799	763	731	704	682	665	651	641

NA = Not Applicable

¹ Midsession estimate as of July 1995. Estimates not available for 2001 and 2002.² Beneficiary estimates do not include Nutrition Assistance Program recipients.³ Average number of monthly cases.

During the past year, no reconciliation or emergency mandatory legislation was enacted into law. Thus, there are no additional adjustments to the targets required by the Order.

Growth in Mandatory Programs

Table 13-3 shows outlays for mandatory and related programs for the years 1995 through 2002. Under cur-

rent law, spending on mandatory programs including net interest is projected to be \$1,102.2 billion in 1997, \$61.5 billion more than the 1996 estimate. By 2002, spending for mandatory programs including net interest is projected to reach \$1,423.5 billion.

Table 13-3. OUTLAYS FOR MANDATORY AND RELATED PROGRAMS UNDER CURRENT LAW

(In billions of dollars)

	1995 ac- tual	Estimate							Total 1996-2002
		1996	1997	1998	1999	2000	2001	2002	
Human resources programs:									
Education, training, employment, and social services:									
Family education loan	3.5	3.0	2.2	2.0	1.8	1.7	1.8	1.9	14.5
Direct loan	0.8	0.6	0.7	0.9	1.3	1.5	1.6	1.7	8.2
Social services	8.8	9.6	9.8	10.2	10.7	11.2	11.8	12.4	75.6
Other	2.5	1.1	0.8	-0.1	-0.2	-0.3	-0.3	-0.2	0.7
Subtotal, education, training, employment, and social services	15.7	14.3	13.5	12.9	13.5	14.1	14.9	15.8	99.0
Health:									
Medicaid	89.1	94.9	102.3	112.0	121.8	133.2	145.6	159.4	869.0
FEHB and other	4.3	4.2	4.5	4.6	4.5	4.9	5.4	5.7	33.9
Subtotal, health	93.4	99.1	106.8	116.5	126.3	138.0	151.0	165.1	902.9
Medicare:									
Hospital insurance	113.6	125.5	137.1	149.3	161.9	175.0	188.8	203.1	1,140.6
Supplementary medical insurance	63.5	69.1	76.3	84.8	93.0	102.1	112.5	124.1	661.8
Medicare premiums and collections	-20.2	-19.8	-20.3	-22.0	-23.3	-24.3	-25.3	-26.4	-161.5
Subtotal, medicare	156.9	174.7	193.1	212.0	231.6	252.8	275.9	300.7	1,640.9

Table 13-3. OUTLAYS FOR MANDATORY AND RELATED PROGRAMS UNDER CURRENT LAW—Continued

(In billions of dollars)

	1995 ac- tual	Estimate							Total 1996-2002
		1996	1997	1998	1999	2000	2001	2002	
Income security:									
General retirement and disability:									
Railroad retirement	3.7	4.1	4.2	4.2	4.2	4.3	4.3	4.4	29.7
Other	1.0	0.5	0.3	0.4	0.4	0.6	0.5	0.6	3.2
Subtotal, general retirement and disability	4.7	4.6	4.4	4.6	4.6	4.9	4.9	5.0	32.9
Federal employee retirement and disability:									
Civilian employees retirement	38.8	40.1	42.3	44.3	46.4	48.6	50.9	53.6	326.1
Military retirement	27.8	28.5	29.7	30.8	31.9	32.9	34.0	35.1	222.9
Other	-0.8	-0.7	-0.8	-0.6	-0.6	-0.6	-0.5	-0.5	-4.3
Subtotal, Federal employees retirement and disability	65.8	67.8	71.2	74.5	77.7	80.9	84.3	88.2	544.7
Unemployment compensation	21.3	23.7	24.7	25.3	26.1	27.0	28.1	29.2	184.0
Food and nutrition assistance:									
Food stamps (incl. Puerto Rico)	25.6	26.3	27.5	28.6	29.6	30.7	32.0	33.3	208.0
Child nutrition programs	7.5	8.2	8.6	9.2	9.7	10.3	10.8	11.4	68.1
Other	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	3.1
Subtotal, food and nutrition assistance	33.5	35.0	36.5	38.2	39.8	41.4	43.2	45.1	279.2
Other income security:									
Supplemental security income	24.5	24.5	28.3	30.3	32.1	36.5	33.2	37.7	222.6
Family support payments	17.1	17.4	18.0	18.4	19.1	19.7	20.4	21.1	133.9
Earned income tax credit	15.2	18.1	19.9	20.7	21.6	22.6	23.5	24.4	150.9
Other	-0.8	-0.9	-1.0	-1.1	-1.3	-1.5	-1.4	-1.5	-8.7
Subtotal, other income security	56.0	59.1	65.2	68.3	71.4	77.3	75.7	81.6	498.7
Subtotal, income security	181.3	190.3	202.0	210.9	219.6	231.5	236.2	249.1	1,539.5
Social Security	333.3	348.1	364.8	383.3	401.7	421.3	441.9	463.5	2,824.7
Veterans' benefits and services:									
Compensation ¹	14.8	14.1	15.7	16.2	16.5	18.1	16.2	17.8	114.7
Pensions ¹	3.0	2.8	3.0	3.0	3.5	3.9	3.4	3.8	23.3
Other	2.0	2.1	2.3	2.3	2.2	2.3	2.3	2.3	15.7
Subtotal, veterans benefits and services	19.9	19.0	20.9	21.4	22.3	24.2	21.9	23.9	153.7
Subtotal, human resources programs	800.4	845.5	901.1	957.0	1,015.0	1,082.0	1,141.8	1,218.1	7,160.7
Other programs included in the entitlement target:									
Agriculture:									
Farm price supports (CCC) ²	6.0	3.2	3.6	5.1	5.0	4.4	3.8	3.3	28.5
Other	-0.3	0.6	0.1	*	*	0.1	0.2	0.2	1.1
Subtotal, agriculture	5.8	3.8	3.7	5.1	5.0	4.5	4.0	3.5	29.6
Undistributed offsetting receipts:									
Employer share, employee retirement	-34.4	-33.4	-34.4	-35.2	-36.4	-38.2	-40.0	-42.3	-259.9
Rents and royalties on the Outer Continental Shelf	-2.4	-2.7	-3.1	-2.6	-2.6	-2.6	-2.6	-2.6	-18.7
Other offsetting receipts: Spectrum auction, privatize Elk Hills, sale of power marketing administration	-7.6	-4.2	-1.7	-4.4	.....	.....	.....	.....	-10.3
Subtotal, undistributed offsetting receipts	-44.5	-40.3	-39.2	-42.2	-39.0	-40.7	-42.6	-44.9	-288.9
Other functions	-2.6	-0.4	2.1	-0.1	-0.4	0.8	-*	-0.2	1.8
Subtotal, other programs included in the entitlement target	-41.2	-37.0	-33.4	-37.2	-34.3	-35.4	-38.6	-41.5	-257.4
Subtotal, mandatory programs included in the entitlement target	759.2	808.6	867.7	919.8	980.7	1,046.6	1,103.2	1,176.6	6,903.3
Deposit insurance	-17.9	-9.0	-4.6	-1.6	-*	-2.0	-1.3	-1.4	-19.9
Net interest:									
Interest on the public debt	332.4	344.6	345.8	347.6	352.1	356.8	360.9	367.6	2,475.5
Interest received on trust funds	-93.2	-97.6	-100.4	-103.3	-105.5	-109.1	-108.8	-111.4	-736.1
Other interest	-7.1	-5.9	-6.3	-5.7	-6.0	-6.7	-7.4	-7.8	-45.9
Subtotal net interest	232.2	241.1	239.1	238.6	240.6	241.1	244.6	248.4	1,693.5
Total, outlays for mandatory and related programs	973.5	1,040.7	1,102.2	1,156.9	1,221.2	1,285.7	1,346.6	1,423.5	8,576.8

* \$50 million or less.

¹ 13 benefit payments are outlaid in 2000. Only 11 benefit payments are outlaid in 1996 and 2001.² Figures reflect the extension of authority for farm programs that was in place in December 1995. However authority for many farm programs expired after this date. At the time of the 1997 budget preparation, new authority had not been enacted. Therefore under current law, authority for these programs has reverted back to provisions contained in the 1938 and 1949 Farm Bills. See Chapter 15 for estimates of this authority.

Spending on programs covered by the mandatory targets is projected to grow from \$808.6 billion in 1996 to \$1,176.6 billion in 2002, an annual average rate of 6.5 percent. In percentage terms, the areas of largest growth are the health entitlements. More than half of the growth in programs covered by the mandatory targets is in Medicaid and Medicare. For additional information on the trends in mandatory spending, see Chapter 15 "Current services estimates" in this volume.

Growth in Receipts

Baseline receipts are projected to be \$1,501.5 billion in 1997, \$73.6 billion more than the 1996 estimate. By 2002, baseline receipts are projected to reach \$1,915.9 billion. For additional information on the trends in baseline receipts, see Chapter 15 "Current Service Estimates" in this volume.

The Order requires a comparison between the current level of receipts and the levels projected as of the date of enactment of OBRA93 (September 1993 Midsession). As shown in Table 13-4, receipts are higher than the September 1993 Midsession estimates in each year, by amounts ranging from \$25.0 billion to \$65.9 billion. These increases are the net effect of legislative, administrative and regulatory changes; revisions in economic assumptions; and technical estimating revisions. Revised economic assumptions, primarily higher wages and salaries, and corporate profits, have increased receipts in each year, by amounts ranging from \$17.2 billion to \$56.6 billion. Technical revisions, primarily reflecting collection experience, updated tabulations from tax returns, and revisions in historical economic data, have increased receipts in each year except 1996. Regulatory and legislative changes since September 1993 have also increased receipts in each year.

Table 13-4. COMPARISON OF 1994 MIDSSESSION (CBO UPDATED) AND 1996 BUDGET BASELINE RECEIPTS

(In billions of dollars)

	1995	1996	1997	1998
1994 Midsession baseline estimate	1,329.5	1,402.9	1,457.6	1,512.6
Revised economic assumptions:				
Individual income taxes	-0.1	7.6	13.0	19.8
Corporation income taxes	13.9	16.5	22.1	28.4
Social insurance taxes and contributions	-1.4	0.7	5.2	8.4
Excise taxes	0.8	0.9	0.8	0.8
Estate and gift taxes	0.2	0.2	0.2	0.3
Customs duties	1.0	0.5	1.1	1.4
Federal Reserve deposit of earnings	2.8	0.2	-1.6	-2.5
Other miscellaneous receipts .....	.....	.....	.....	.....
Subtotal, economic assumptions	17.2	26.6	40.9	56.6
Technical revisions:				
Individual income taxes	-7.7	-10.7	-9.6	-8.2
Corporation income taxes	15.4	17.8	22.5	30.3
Social insurance taxes and contributions	-5.5	-11.0	-9.4	-12.6
Excise taxes	0.3	-4.1	-6.6	-7.0
Estate and gift taxes	0.8	0.9	1.0	1.2
Customs duties	-1.9	-1.3	-0.9	-0.8
Federal Reserve deposit of earnings	3.1	5.2	5.1	5.4
Other miscellaneous receipts	-0.1	-0.4	-0.4	-0.4
Subtotal, technical revisions	4.4	-3.5	1.8	7.9
Enacted legislation	3.9	1.9	1.2	1.4
Administration action ¹	0.2	0.1	0.1	0.1
Total changes	25.7	25.0	43.9	65.9
1997 Budget baseline estimate	1,355.2	1,427.9	1,501.5	1,578.6

¹ Reflects the effect of regulations affecting hedging transactions.

Comparison of Mandatory Targets and Outlays under Current Laws

As Table 13-1 shows, estimates of spending for programs covered by the targets under current laws are \$40.3 billion below the target for 1995, \$31.4 billion below the target for 1996, and \$40.8 billion below the target for 1997. Over the three year period from 1995-97, projections of current law spending are \$112.5 billion below the targets. While the targets have increased since the 1995 Budget, current law levels have

decreased creating more room under the targets. As discussed above, the targets have increased as a result of upward revisions in beneficiary estimates. Under the Order, decreases in beneficiary estimates, do not affect the targets. If the caps were adjusted for the decreases, using the same mechanism applied to increases, the targets would have been reduced by \$38.1 billion over the three years. Current law levels have decreased reflecting changes in beneficiaries.

Since current law spending is projected to be below the targets, a special message to reduce direct spending is not required.

Comparison of Mandatory Targets and Presidential Proposals

Enactment of the proposals in the President's budget would change the levels of the targets and estimated outlays. As shown in Table 13-5, enactment of the President's revenue proposals would decrease the mandatory targets by \$1.6 billion in 1996 and \$11.7 in

1997. This reduction in revenue is more than offset by the proposed \$13.7 billion decrease in direct spending. The target enforcement procedure allows for this type of tradeoff between decreases in revenue and decreases in direct spending. After adjusting the targets to reflect the President's policy initiatives, spending under the President's budget is \$34.8 billion below the target for 1996 and \$37.9 billion below the target for 1997. Over the three year period from 1995-97, spending under the President's proposal is \$113.0 billion below the targets.

Table 13-5. MANDATORY TARGETS ASSUMING ENACTMENT OF PRESIDENTIAL PROPOSALS

(In billions of dollars)

	1995	1996	1997	1995-97
Mandatory targets				
Current mandatory targets	799.5	840.0	908.5	.....
Adjustment to targets if the President's proposals are enacted:				
Tax reduction .....	.....	-1.3	-17.6	-18.8
Other revenue proposals .....	.....	-0.3	5.8	5.5
Total adjustments .....	.....	-1.6	-11.7	-13.3
Targets adjusted for Presidential proposals	799.5	838.4	896.8	.....
Proposed outlays for programs covered by the target				
Outlays under current law	759.2	808.6	867.7	.....
Presidential proposals .....	.....	-4.9	-8.8	-13.7
Proposed outlay totals	759.2	803.6	858.9	.....
Amount over (+) or under (-) the targets	-40.3	-34.8	-37.9	-113.0